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**Graphic  
Communications  
Limited**

*(Canada)*

**Annual Report**

**1974**

**CANADA:** GCL GRAPHIC COMMUNICATIONS LIMITED  
**UNITED KINGDOM:** INTERSCAN DATA SYSTEMS (U.K.) LIMITED  
INTERSCAN-DEX LIMITED  
**WEST GERMANY:** INTERSCAN GmbH



## GCL GRAPHIC COMMUNICATIONS LIMITED

CONSOLIDATED STATEMENT OF CHANGES  
IN FINANCIAL POSITION

(Expressed in Canadian Dollars)

Six Months Ended June 30 1974	Twelve Months Ended June 30 1973
(UNAUDITED)	

## SOURCES OF WORKING CAPITAL

Increase in long-term debt	\$ 668,159	\$ 844,545
Issue of common shares	81,000	
	<u>749,159</u>	<u>844,545</u>

APPLICATIONS OF  
WORKING CAPITAL

From operations		
Loss before extraordinary items and interest of minority shareholder	507,839	408,673
Items not involving the use of working capital		
Depreciation and amortization	(219,572)	(156,376)
Income tax reductions arising from the application of losses of prior years	<u>(196,463)</u>	<u>91,804</u>
	<u>91,804</u>	<u>252,297</u>
Fixed assets	973,336	424,196
Reduction in long-term debt	30,895	54,776
Expenses of proposed underwriting not proceeded with		93,133
Other	61,639	
	<u>1,157,674</u>	<u>824,402</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(408,515)	20,143
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF PERIOD	345,884	(108,052)
WORKING CAPITAL DEFICIENCY AT END OF PERIOD	<u>\$ 62,631</u>	<u>\$ 87,909</u>

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**Graphic  
Communications  
Limited**

**INTERIM REPORT  
TO SHAREHOLDERS  
FOR THE SIX MONTHS  
ENDED JUNE 30, 1974**

## CANADA:

GCL GRAPHIC COMMUNICATIONS LIMITED

## UNITED KINGDOM:

INTERSCAN DATA SYSTEMS (U.K.) LIMITED

INTERSCAN-DEX LIMITED

## WEST GERMANY:

INTERSCAN GmbH

## To Our Shareholders:

Total revenue from sales, rentals, and maintenance services for the six months ended June 30, 1974, was \$6,937,-658. This compares to total revenues of \$980,135 for the twelve months ended June 30, 1973, (which was the full fiscal year immediately preceding the acquisition of the Interscan Group by your Company). For the six months ended June 30, 1974 your Company incurred a loss of \$289,989, or 17c per share. This compares to a loss of \$771,255 for the twelve months ended June 30, 1973 (loss of \$1.81 per share). The 1973 figures mentioned herein do not include the results of the Interscan Group of Companies. However, the Company's published report for the period July to December, 1973, (the first six months of operation after the acquisition of the Interscan Group) did include results of the Interscan Group and showed total revenues of \$8,082,830 and net income of \$540,272.

The loss incurred during the six months period ended June 30, 1974 was less than the loss projections for the period made by Management. The nature of the Interscan Group business has historically been a loss position for the first half of the year because of heavy programming and developmental expenses on orders, and a strong profit in the latter half of the year as large computer input systems are delivered and billed. This cyclical profit/loss position of the Interscan Group was one of the basic business reasons for the merger of the profitable Interscan operations with the more consistent, steady rental revenues being developed by the placement of Dex facsimile equipment. As more and more Dex equipment is placed on rental, your Management looks forward in the future to consistent profit positions throughout the year.

Sales of Interscan European operations as a whole were substantially ahead of forecasted results for the six months period. Orders booked for the remainder of the year are continuing at a high level. Management forecasts an overall profit for the year.

The Interscan-Dex Ltd. operation in England is making gradual progress: a new Managing Director has been appointed, and particular emphasis is being placed on recruitment of high-calibre sales and marketing personnel. Rental revenues of Interscan Dex Ltd. have been growing in line with projections.

The GCL Graphic Communications Limited Canadian business has been proceeding at a very gratifying rate throughout this entire period. Monthly rentals have been increasing each month and June 1974 rental revenues were approximately 50% higher than the rental revenue at the beginning of 1974. Management looks forward to continuing progress in adding to rental revenues.

The Management of your Company is extremely pleased to announce that the Company has been accepted by the Montreal Stock Exchange for listing as a Junior Industrial. Formal documentation is presently proceeding.

Yours respectfully,

Clifford G. Green  
President

August 30, 1974

## Cadence

### GCL GRAPHIC COMMUNICATIONS LIMITED

#### CONSOLIDATED STATEMENT OF INCOME

(Expressed in Canadian Dollars)

	Six Months Ended June 30, 1974	Twelve Months Ended June 30, 1973
(UNAUDITED)		
REVENUE		
Sale and rental income, maintenance and other income	\$ 6,937,658	\$ 980,135
EXPENSES		
Cost of sales, supplies, maintenance, selling, general and administrative expenses	6,738,472	1,225,070
Interest on long-term debt	225,334	7,362
Depreciation and amortization	219,572	156,376
Net loss on currency fluctuations	63,367	
	7,246,745	1,388,808
Loss before income taxes, interest of minority shareholder and extraordinary items	309,087	408,673
Income taxes	198,752	
	507,839	408,673
Interest of minority shareholder	21,387	
Loss before extraordinary items	J 486,452	J 408,673
Extraordinary items		
Income tax reductions arising from application of losses of prior years	196,463	
Write-down of graphic communication equipment		362,582
NET LOSS FOR THE PERIOD	\$ 289,989	\$ 771,255
LOSS PER SHARE		
Before extraordinary items	J \$ 0.28	J \$ 0.96
Net loss for period	J \$ 0.17	J \$ 1.81

NOTE: The 1973 figures do not include the results of the wholly-owned Interscan Group of companies or Interscan-Dex Limited, a 51% owned subsidiary of the Company. These subsidiaries were acquired for accounting purposes on July 1, 1973 and accordingly a comparison of the 1974 and 1973 items on the above Consolidated Statement of Income is not meaningful.

DIRECTORS

Robert D. Bell  
D. Keith Davey  
Clifford G. Green  
William J. Lambeau

George A. McDonald  
Gordon W. Skinner  
F. Gerald Townsend

OFFICERS

F. Gerald Townsend  
Chairman of the Board

Gordon W. Skinner  
Director in charge of European Operations

Clifford G. Green  
President and Chief Executive  
Officer

Peter J. Lawrence  
Vice-President, Marketing  
Federal Government and Northern Canada

William J. Lambeau  
Executive Vice-President

Robert D. Bell  
Secretary-Treasurer

Henri F. Spitzer  
Vice-President, Marketing  
Eastern Region, Canada

AUDITORS

ThorneRiddell & Co., Toronto

LEGAL COUNSEL

Weir & Foulds, Toronto

REGISTRAR AND TRANSFER AGENT

BRANCH REGISTRAR AND BRANCH TRANSFER AGENT

Montreal Trust Company, Toronto

National Bank of North America, New York City

BANKER

The Toronto-Dominion Bank, Toronto

EXECUTIVE OFFICES

2025 Sheppard Avenue East  
Willowdale, Ontario, Canada  
M2J 1V6  
(416) 491-3491

CANADIAN SALES OFFICES

Eastern Regional Office  
8180 Devonshire Road, Suite 6,  
Town of Mount Royal, P.Q. H4P 2K3  
(514) 733-5387

Western Regional Office  
444 Robson Street,  
Suite 106,  
Vancouver, B.C.  
(604) 689-0495

Central Regional Office  
2250 Midland Avenue, Unit 24,  
Scarborough, Ontario. M1P 4R9.  
(416) 291-7351

Governmental Office  
1750 Courtwood Crescent, Suite 312,  
Ottawa, Ontario. K2C 2B5  
(613) 225-5361

EUROPEAN SALES OFFICES

Interscan Data Systems (U.K.) Ltd.,  
Hoechst House,  
Salisbury Road,  
Hounslow, Middlesex, England  
TW4 6JQ

St. Anthony's Way,  
Feltham, Middlesex, England

42 Washway Road,  
Sale Cheshire, England  
M33 1QZ

Four Coates Place,  
Edinburgh, Scotland

Interscan-Dex Limited  
Hoechst House,  
Salisbury Road,  
Hounslow, Middlesex, England

Interscan GmbH  
6082 Moerfelden,  
Parkhaus, Hauptwache,  
West Germany

Additional Sales and Services facilities throughout Canada, the  
United Kingdom and West Germany.



## **Directors' Report to Shareholders**

Your Directors are pleased to submit the Corporation's Annual Report including its Consolidated Financial Statements for the year ended December 31, 1974. Also enclosed is a form of Proxy and a Notice of Annual Meeting of shareholders together with an Information Circular outlining matters to be voted on for approval at the Meeting.

The Corporation reports a consolidated net loss for the year of \$304,688. This follows the reporting of a profit of \$540,272 for the six months ending December 31, 1973. These results reflect the operations of the three principal subsidiaries which were in joint operation for 6 months in 1973 and for the full year in 1974.

The GCL-Dex operation in Canada in 1974 sustained a loss of approximately \$630,000 and the Interscan-Dex operation in the U.K. sustained a loss of approximately \$410,000 whereas, Interscan Data Systems (U.K.) Limited showed a profit of \$736,507. This latter figure reflects profitable operations in the U.K. and in Germany through Interscan GmbH. It is appropriate to deal with each subsidiary and of course the operations of Interscan Data Systems are worthy of particular comment.

### **COMPUTER DATA ENTRY SYSTEMS**

This area of the Corporation's activity is undertaken through Interscan Data Systems (U.K.) Limited, and Interscan GmbH which distribute a comprehensive range of equipment in the United Kingdom, Ireland, West Germany, Austria, Switzerland and, more recently, in the Eastern European countries.

Interscan GmbH is a completely integrated subsidiary operating in West Germany.

The United Kingdom Company is responsible for sales in the Eastern European countries and sales have been made in Hungary and Czechoslovakia. The Company is actively working in several other Eastern European countries.

In 1974 the Company operated profitably in all areas. Total sales for the year of \$10,293,022 compare to \$7,040,261 of sales in the 12 months ending December 31, 1973. The net profit for the period ending December 31, 1974 of \$736,507 compares with a profit of \$349,108 for the year ending December 31, 1973. The first half of each year normally shows a loss. The growth in operations witnessed

in 1974 is expected to continue during 1975.

The principal systems sold under distributorships are:

- a. System 2100: An advanced key-to-disc data entry system.
- b. Scan-Data: Optical character recognition systems.
- c. Laser OCR-ONE: Optical character recognition systems.
- d. Almex OCR72: Optical character recognition system.
- e. Opscan Mark Read data entry units.

Your Company is currently introducing a range of Intelligent Computer Terminals. This type of equipment represents the greatest growth potential of any peripheral devices within the data processing industry.

Consideration is now being given to the manufacture of the Intelligent Terminal System under licence, in the United Kingdom where locally manufactured peripherals such as magnetic discs and line printers will be added to the basic terminal system. The major advantage of this step will be to increase the competitiveness and profit margin on systems sold. It may also enable the company to appoint distributors from which it can expand into the potentially lucrative areas including the remainder of E.E.C. countries, Scandinavia, Middle East and the African Continent.

A major proportion of existing Interscan users in the United Kingdom and Germany expect to install intelligent terminals over the next three years. Interscan feels that with this equipment specifically designed after detailed market research they will be in a favourable position to obtain a significant portion of this and other potential business.

Generally forecasts for the future market for word processing systems are exceedingly optimistic: there is a good demand for a processor controlled system to perform word processing tasks. Interscan have introduced "Datatext", based on the System 2100 to meet this market demand. Previously, many manufacturers have marketed a considerable number of magnetic cartridge or card typewriter systems because of the economy they offer over conventional typewriters. Each Datatext key station, because of the advanced operator facilities and high speed printing, is designed to replace at least two magnetic card typewriters.

Datatex will, therefore, provide significant staff and other savings for its users which is of particular importance in these highly inflationary times. This should be an important and profitable market for Interscan.

In the United Kingdom the company now has 110 key-to-disc systems installed. Over 2500 terminals are attached to these systems and this represents a market share of 20%. The company is a major supplier to U.K. Government Departments and 1974 saw a considerable expansion of the company's activities in the Commercial market-place.

Interscan have what is believed to be one of the largest key-to-disc system installations in the world at Freemans Mail Order Company. At this installation seven systems are involved with a total of 266 installations. This represents a total dollar value of \$1,442,000.

Another installation of considerable importance and prestige to the company is at H.M. Customs & Excise. Here five systems with 270 keystations produce all the computer input for U.K. value added tax and the monthly Foreign Trade statistics. The Interscan System 2100 was the only equipment which was capable of meeting the stringent and detailed specifications laid down by the Government for these two vitally important applications.

Further inroads were made into the optical character recognition market and marketing operations were commenced with a new lower-cost optical character reader, the Laser OCR-ONE. Management looks confidently ahead to greater sales in all areas because of the overall coverage it can provide with its various distributorships.

In Germany an active marketing programme during the year saw a number of optical character recognition systems installed with a volume of sales and profits showing a consistent increase in the latter part of the year.

During 1974 the German company supplied three large optical character recognition systems to the German State Broadcasting Authority with a total dollar value of \$2,129,000. These machines read information produced from addressograph-type plates - many of which are up to 20 years old. Each system incorporates five visual display units where operators can key information which cannot be read by the machine. This is the first time Scan Data equipment of such sophistication has been installed anywhere in the world.

Another first for the German company was the installation of a Scan Data optical character reading system at Migros - a retail chain in St. Gallen in Switzerland. This system reads both numeric and alphabetical handprint information. Many systems are installed throughout the world which read numerical handprinted data, but other than at Migros none read both alphabetic and numeric data.

During the early part of 1975 the company also released in Germany the lower cost OCR reader. This together with Scan Data, intelligent terminals and word processing system in management's opinion provides a sound platform for continued and sustained growth.

Eastern Europe in 1974 saw the delivery of a number of data entry systems. Orders are materialising from several further socialist countries and 1975 appears to be one of considerable expansion.

The Eastern block have decided to manufacture only mainframe computer systems and to seek outside suppliers for all intelligent terminal data entry systems and word processing systems. Interscan management feel that the very detailed groundwork and close contacts which have been built up over the past year could well be rewarded with a considerable volume of business in the next few years.

## GRAPHIC COMMUNICATIONS

1974 was a year marked by high inflation and high interest rates. Along with many business sales organizations GCL felt the impact of those two forces as the Corporation had to operate with much higher costs of materials, supplies and labour while carrying a heavier interest burden for debt financing. These problems have a unique application to the Dex operation in Canada and the U.K. in that it is essentially a rental business. Management has always felt it had a superior product. However, machines purchased outright at an increased cost, and financed with higher interest rates with income derived from rentals spread out over long periods of time does not provide an adequate return to the Corporation if it is to remain competitive in price. This has led Management and your Directors to the conclusion that in the present financial climate, it is impractical for the Corporation to finance the purchase of additional Dex machines and, therefore, the decision has been reached to maintain Dex operations in Canada and the U.K. as going concerns but to pursue actively the sale of the Dex assets of the Corporation and of Interscan-Dex Limited.

### DEX-CANADA

in 1974 Dex sales rental income, maintenance, repair and other income totalled \$2,002,348. During the last six months of 1973 gross income totalled \$944,569. The exposure of Dex equipment in Canada continued to be enhanced by the Trans-Canada Telephone Systems which markets Dex machines under the name of FAXcom purchased through the distributorship held by the Corporation in Canada. The Corporation has benefitted considerably from the greater number of machines that are in circulation by having established repair, service facilities and supplies not only for its own customers but also for the customers of T.C.T.S. Previously, almost all of the items and units requiring repair were returned to the manufacturer in the U.S. This has now been discontinued and it has been determined that the repair and servicing facility is a profitable part of the Corporation's business.

### DEX-U.K.

Interscan-Dex Limited, which was formed to distribute Dex equipment in the United Kingdom, became a wholly-owned subsidiary of Interscan Data Systems (U.K.) Limited during the year by the acquisition of 49% of the shares owned by Coldstream Mines Limited, Graphic Communications Limited having held a 51% interest prior to this transaction. Essentially, all of the losses for the year have been provided for in the consolidated account.

The U.K. Dex operations in 1974 recorded income from all sources, sales, rentals, repairs, etc. of approximately \$432,000. For the last six months in 1973 similar income amounted to \$98,000. Operations in 1974 resulted in a net loss of \$410,000. In view of the very short time period in which the Company has been involved in the Dex operation in the U.K., the rate of growth established in 1974 has been very satisfactory however negotiations are underway to sell the company as a going concern due to the unpracticality of securing necessary financing

In August 1974 it was reported that the Corporation had made application for the listing of its shares and warrants on the Montreal Stock Exchange. The completion of documentation in this regard is being temporarily held in abeyance, until the Directors feel that the timing of such a move is in the best interests of the shareholders.

Management is now of the belief that the growth of the Corporation will be built on the success to date and the future prospects of the Interscan Group of Companies' sales of the computer input systems. Under the able direction of Mr. Gordon Skinner, the Group Managing Director, there exists a strong aggressive marketing and servicing talent which should provide for an increasingly profitable future for the Corporation.

To these individuals and to all employees, your Directors extend their thanks for their exemplary effort during a difficult year.

F. Gerald Townsend  
Chairman of the Board

Clifford G. Green  
President

Toronto, Ontario,  
May 30, 1975.

AUDITORS' REPORT

To the Shareholders of  
GCL Graphic Communications Limited

We have examined the consolidated balance sheets of GCL Graphic Communications Limited and subsidiary companies as at December 31, 1974 and 1973 and the consolidated statements of income, deficit and changes in financial position for the year ended December 31, 1974 and the six months ended December 31, 1973. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and 1973 and the results of their operations and the changes in their financial position for the year ended December 31, 1974 and the six months ended December 31, 1973, in accordance with generally accepted accounting principles applied on a consistent basis.

*Thorne Gunn & Co.*

Chartered Accountants

Toronto, Canada  
February 20, 1975

GCL GRAPHIC COMMUNICATIONS LIMITED  
 (Incorporated under the laws of Ontario)  
 and subsidiary companies

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1974 and 1973  
 (Expressed in Canadian Dollars)

	<u>1974</u>	<u>1973</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and short-term bank deposits	\$ 1,017,546	\$ 671,853
Accounts receivable	4,107,113	5,101,953
Inventories (note 4)	<u>2,578,934</u>	<u>1,492,098</u>
	<u>7,703,593</u>	<u>7,265,904</u>
<b>FIXED ASSETS (note 5)</b>	<u>2,419,380</u>	<u>1,357,624</u>
<b>OTHER ASSETS</b>		
Deposits as surety on guarantees (note 6)	279,644	105,329
Deferred development and pre-operating expenses	90,427	125,751
Deferred finance charges	178,165	
Loans to shareholders (note 9)	<u>64,800</u>	<u>231,080</u>
	<u>613,036</u>	<u>231,080</u>
<b>GOODWILL, at cost</b>	<u>3,736,002</u>	<u>3,784,629</u>
	<u>\$14,472,011</u>	<u>\$12,639,237</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank advances, secured (note 7)	\$ 3,839,519	\$ 4,329,007
Accounts payable and accrued liabilities	2,803,939	2,393,933
Customers' deposits	248,334	135,291
Advances from parent company, of which		
\$1,000,000 is convertible into shares (note 2)	3,660,628	
Income taxes payable	11,450	
Current portion of long-term debt	<u>162,906</u>	<u>61,789</u>
	<u>10,726,776</u>	<u>6,920,020</u>
<b>LONG-TERM DEBT (note 8)</b>	<u>532,445</u>	<u>2,334,632</u>
<b>DEFERRED INCOME TAXES</b>	<u>73,280</u>	
<b>INTEREST OF MINORITY SHAREHOLDER</b>		<u>21,387</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK (note 9)</b>		
Authorized - 5,000,000 shares without par value		
Issued - 1,772,353 shares	4,331,744	4,250,744
	<u>(1973, 1,736,353 shares)</u>	
<b>DEFICIT</b>	<u>1,192,234</u>	<u>887,546</u>
	<u>3,139,510</u>	<u>3,363,198</u>
	<u>\$14,472,011</u>	<u>\$12,639,237</u>

Approved by the Board

"C.G. Green"

Director

"R.D. Bell"

Director

GCL GRAPHIC COMMUNICATIONS LIMITED  
and subsidiary companies

CONSOLIDATED STATEMENTS OF INCOME  
(Expressed in Canadian Dollars)

	Year Ended December 31, 1974	Six Months Ended December 31, 1973
<b>REVENUE</b>		
Sale and rental income, maintenance and other income	\$12,728,418	\$ 8,082,830
<b>EXPENSES</b>		
Cost of sales, supplies, maintenance, selling, general and administrative expenses	11,906,028	7,206,675
Interest on long-term debt	652,441	112,267
Depreciation and amortization	521,937	161,921
Loss (gain) on currency revaluations and translations	(173,809)	51,115
	<u>12,906,597</u>	<u>7,531,978</u>
Income (loss) before income taxes, interest of minority shareholder and extraordinary items	(178,179)	550,852
Income taxes (note 10)	<u>419,220</u>	<u>261,286</u>
	(597,399)	289,566
Interest of minority shareholder in net income (loss) of subsidiaries	(21,387)	9,137
Income (loss) before extraordinary items	<u>(576,012)</u>	<u>280,429</u>
<b>Extraordinary items</b>		
Income tax reductions arising from application of losses of prior years (note 10)	332,201	259,843
Loss on wind-up of a subsidiary	(60,877)	
	<u>271,324</u>	<u>259,843</u>
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	<u>\$ (304,688)</u>	<u>\$ 540,272</u>
<b>EARNINGS (LOSS) PER SHARE (on a weighted average basis)</b>		
Before extraordinary items	<u>\$ (0.32)</u>	<u>\$ 0.16</u>
Net income (loss) for the period	<u>\$ (0.17)</u>	<u>\$ 0.31</u>

CONSOLIDATED STATEMENTS OF DEFICIT  
(Expressed in Canadian Dollars)

	Year Ended December 31, 1974	Six Months Ended December 31, 1973
Deficit at beginning of period	\$ 887,546	\$ 1,423,258
Net income (loss) for the period	(304,688)	540,272
Organization expenses written off	1,192,234	882,986
Deficit at end of period	<u>\$ 1,192,234</u>	<u>\$ 887,546</u>

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**GCL GRAPHIC COMMUNICATIONS LIMITED  
 and subsidiary companies**

**CONSOLIDATED STATEMENTS OF CHANGES IN  
 FINANCIAL POSITION  
 (Expressed in Canadian Dollars)**

Year Ended December 31, 1974	Six Months ended December 31, 1973
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**SOURCES OF WORKING CAPITAL**

**Operations**

Income (loss) before extraordinary items	\$ (576,012)	\$ 280,429
Items not involving working capital		
Depreciation and amortization	521,937	161,921
Interest of minority shareholder	(21,387)	9,137
Deferred income taxes	<u>73,280</u>	<u>451,487</u>
	<u>(2,182)</u>	<u>159,115</u>
Increase in advances from parent company		
Increase in other long-term debt	683,402	259,843
Extraordinary income tax reductions	332,201	81,000
Issue of capital stock under stock option		
Shares issued to acquire the Interscan Group	<u>2,950,544</u>	<u>12,250</u>
Issue of capital stock to minority shareholders		
	<u>1,094,421</u>	<u>3,833,239</u>

**USES OF WORKING CAPITAL**

Reclassification of advances from parent company	2,297,718	
Fixed assets	1,544,244	397,896
Reduction in long-term debt	187,871	211,455
Increase in deposits as surety on guarantees	174,315	73,250
Increase in deferred charges	182,290	125,751
Loans to shareholders	64,800	
Cost of acquisition of minority interest in a subsidiary	12,250	
Cost of acquisition of the Interscan Group less working capital acquired of \$364,010		2,586,534
Organization expenses		<u>4,560</u>
	<u>4,463,488</u>	<u>3,399,446</u>

**INCREASE (DECREASE) IN WORKING CAPITAL POSITION**

(3,369,067)	433,793
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WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF PERIOD

345,884	(87,909)
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WORKING CAPITAL (DEFICIENCY) AT END OF PERIOD

<u><u>\$ (3,023,183)</u></u>	<u><u>\$ 345,884</u></u>
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GCL GRAPHIC COMMUNICATIONS LIMITED  
and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1974  
(Expressed in Canadian Dollars)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Translation of Foreign Currencies

Current assets, current liabilities and long-term debt have been translated at the prevailing rates of exchange at the balance sheet date. Fixed and other assets and related depreciation and amortization have been translated at the average rates of exchange for the periods in which they were acquired. Income and expense items, excluding depreciation and amortization, have been translated at the average rates of exchange for the period.

Gains or losses on currency revaluations and translations are reflected in the Consolidated Statement of Income in the period in which they arise.

(b) Depreciation

Depreciation of graphic communications and office equipment is provided at 20% per annum on the reducing balance basis with depreciation on the graphic communications equipment commencing from the month the unit is placed in service. Leasehold improvements are depreciated over the period of the lease.

Other fixed assets are depreciated on a straight line basis at the following annual rates:

Automotive equipment	20% to 25%
Computer input equipment	15% to 20%
Other equipment	10% to 50%

(c) Deferred Development and Pre-operating Expenses

All expenses incurred from incorporation of Intersan-Dex Limited on June 18, 1973 to December 31, 1973 were deferred as they related to the organization of the Company and planning and development of the Company's operations in the United Kingdom. These expenses are being written off equally over the three year period which commenced January 1, 1974.

GCL GRAPHIC COMMUNICATIONS LIMITED  
and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **continued**

Year ended December 31, 1974  
(Expressed in Canadian Dollars)

2. BASIS OF CONSOLIDATION

(a) Subsidiaries Consolidated

The consolidated statements include the accounts of the following wholly-owned subsidiaries:

Interscan Group  
    Intercontinental Data Systems Limited  
    Interscan Data Systems (U.K.) Limited  
    Interscan GmbH  
    Graphic Communications U.K. Holdings Limited  
    Interscan-Dex Limited

During 1974 Interscan Data Systems, A.G., ZUG was wound up.

(b) Interscan-Dex Limited

On July 1, 1974 Interscan Data Systems (U.K.) Limited acquired all of the issued and outstanding shares of Interscan-Dex Limited. Interscan-Dex Limited was previously owned 51% by the Company and 49% by Coldstream Mines Limited.

(c) Interscan Group

Under an agreement signed June 29, 1973 with Coldstream Mines Limited and Interscan Limited, the Company acquired its interest in the Interscan Group in exchange for shares. The Company guaranteed a \$1,500,000 7% debt of the Interscan Group to Interscan Limited and granted Interscan Limited the right to convert \$1,000,000 of such debt into shares of the Company at \$3 per share.

3. DISTRIBUTION AND FRANCHISE AGREEMENTS

(a) Graphic Communications Equipment

Pursuant to agreements dated June 29, 1973 and August 1, 1973, the Company acquired the exclusive rights to distribute graphic communications equipment in Ireland, United Kingdom and Canada.

(b) Computer Input Equipment

The Company holds distribution franchises and rights to market computer input equipment in certain European countries.

GCL GRAPHIC COMMUNICATIONS LIMITED  
and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **continued**

**Year ended December 31, 1974**  
**(Expressed in Canadian Dollars)**

**4. INVENTORIES**

	<u>1974</u>	<u>1973</u>
Computer input equipment	\$ 537,811	\$ 342,842
Graphic communications equipment	651,629	401,952
Parts and supplies	<u>1,389,494</u>	<u>747,304</u>
	<u>\$2,578,934</u>	<u>\$1,492,098</u>

The inventories are valued at the lower of cost (determined on a first-in first-out basis) and replacement cost.

**5. FIXED ASSETS**

	<u>1974</u>	<u>1973</u>
Graphic communications equipment	\$2,703,010	\$1,399,659
Computer input equipment	331,345	302,127
Automotive equipment	197,785	39,525
Office equipment	141,629	84,608
Leasehold improvements	<u>3,314</u>	<u>2,054</u>
	<u>\$3,377,083</u>	<u>\$1,827,973</u>
Less accumulated depreciation	<u>957,703</u>	<u>470,349</u>
	<u><u>\$2,419,380</u></u>	<u><u>\$1,357,624</u></u>

Graphic communications equipment is valued at cost for units acquired after June 30, 1973 and at a written down value for units owned at June 30, 1973. Computer input equipment, automotive equipment, office equipment and leasehold improvements are valued at cost.

**6. DEPOSITS AS SURETY ON GUARANTEES**

The deposits are with a leasing company to secure lease payments by customers in respect of systems sold to them by a subsidiary. The deposits will be repaid over periods commencing not later than August 1977.

**7. BANK ADVANCES**

Bank advances are secured by assignment of the accounts receivable and hypothecation of the inventories of the Company and its subsidiaries, together with guarantees of Coldstream Mines Limited.

GCL GRAPHIC COMMUNICATIONS LIMITED  
and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

Year ended December 31, 1974  
(Expressed in Canadian Dollars)

8. LONG-TERM DEBT

	<u>1974</u>	<u>1973</u>
Long-term debt consists of:		
Due to parent company		
Convertible advances	\$1,000,000	
Other advances	1,297,718	
7% Notes payable, maturing in 1975 (unsecured)	\$ 36,913	98,703
Long-term lease agreement, payable in monthly instalments including principal and interest of \$11,390, maturing in 1979	<u>658,438</u>	<u>2,396,421</u>
	695,351	
Less amount due within one year included in current liabilities	<u>162,906</u>	<u>61,789</u>
	<u>\$532,445</u>	<u>\$2,334,632</u>

9. CAPITAL STOCK

At December 31, 1974 stock options to employees were outstanding on 16,000 shares at a price of \$2.25 per share, exercisable on or before October 31, 1978. During 1974 36,000 shares at a price of \$2.25 per share were issued to two key employees as authorized under a share purchase plan dated November 1, 1973. In accordance with the terms of the plan, the Company advanced \$81,000 to the employees and is to be repaid in annual instalments of \$8,100 for the years 1974 to 1978 and the balance due in 1979. At December 31, 1974 the amounts receivable from employees total \$72,900, of which \$8,100 is included in accounts receivable.

Outstanding share purchase warrants are exercisable as follows:

<u>Number of warrants</u>	<u>Number of shares to be issued</u>	<u>Exercisable price per share</u>	<u>On or before</u>
~200,000	360,000	\$3.03	January 6, 1977
20,000	20,000	\$6.00	January 6, 1977

During 1975 the Company issued 1,311,353 shares of its capital stock as consideration for the acquisition of the Interscan Group (note 2).

10. INCOME TAXES

Losses available to carry forward for income tax purposes, which may be applied in reduction of future taxable incomes, are as follows:

Canada	\$1,011,000
United Kingdom	380,000
Germany	<u>561,000</u>
	<u>\$1,952,000</u>

GCL GRAPHIC COMMUNICATIONS LIMITED  
and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

Year ended December 31, 1974  
(Expressed in Canadian Dollars)

10. INCOME TAXES (Cont'd)

The Company has recorded depreciation in the accounts in excess of capital cost allowance claimed for Canadian income tax purposes of approximately \$940,000.

There has been a deferral of \$134,000 in United Kingdom income taxes by reason of the increase in inventory during 1973. Whether this deferral is permanent or otherwise and the question of further relief in respect of 1974 has yet to be determined and legislation is awaited.

The tax effect of the above items has not been recorded in the accounts.

11. OTHER INFORMATION

Direct remuneration of the Company's directors and senior officers (as defined by The Business Corporations Act) from the Company and its subsidiaries was \$151,000 (\$72,400 in 1973).

GCL GRAPHIC COMMUNICATIONS LIMITED  
and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME AS TO LINES OF BUSINESS  
(Expressed in Canadian Dollars)

	Year Ended December 31, 1974	Graphic Communications Equipment	Computer Input Systems
<b>REVENUE</b>			
Sale and rental income, maintenance and other income	<u>\$12,728,418</u>	<u>\$ 2,435,396</u>	<u>\$10,293,022</u>
<b>EXPENSES</b>			
Cost of sales, supplies, maintenance, selling, general and administrative expenses	11,906,028	2,793,434	9,112,594
Interest on long-term debt	652,441	305,192	347,249
Depreciation and amortization	521,937	403,241	118,696
Gain on currency valuations and translations	<u>(173,809)</u>	<u>(3,889)</u>	<u>(169,920)</u>
	<u>12,906,597</u>	<u>3,497,978</u>	<u>9,408,619</u>
Income (loss) before income taxes, interest of minority shareholder and extraordinary items	(178,179)	(1,062,582)	884,403
Income taxes	<u>419,220</u>	<u>        </u>	<u>419,220</u>
	<u>(597,399)</u>	<u>(1,062,582)</u>	<u>465,183</u>
Interest of minority shareholder in loss of subsidiaries	<u>(21,387)</u>	<u>(21,387)</u>	<u>        </u>
Income (loss) before extraordinary items	<u>(576,012)</u>	<u>(1,041,195)</u>	<u>465,183</u>
<b>Extraordinary items</b>			
Income tax reductions arising from application of losses of prior years	332,201		332,201
Loss on wind-up of a subsidiary	<u>(60,877)</u>	<u>        </u>	<u>(60,877)</u>
	<u>271,324</u>	<u>        </u>	<u>271,324</u>
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	<u>\$ (304,688)</u>	<u>\$ (1,041,195)</u>	<u>\$ 736,507</u>

